



**ZOTEFOAMS**

Tuesday 2 August 2016

**Zotefoams plc**

**Interim Report for the Six Months Ended 30 June 2016**

Zotefoams plc (“Zotefoams”, or “the Group” or “the Company”), a world leader in cellular material technology, today announces its interim results for the six months ended 30 June 2016.

**Highlights**

- Group revenue increased by 2% to £27.07m (2015: £26.49m)
- Operating profit pre-exceptional items increased by 5%
- Adjusted profit before tax<sup>1</sup> in line with prior year
- Group focus on development and investment
- Positive sales momentum going into second half of 2016
  - AZOTE® polyolefin foam orders strengthening after soft June and July
  - ZOTEK® technical foam sales plus orders currently in excess of 2015 sales
  - MuCell Extrusion, record open order book including a “one-off” extrusion line order from Japan
- Significant operational improvements in Croydon, UK facility delivering improved service and reduced labour requirements, with an exceptional item due to associated restructuring costs
- Dow Chemical announced promotion of MuCell® extrusion technology in South America to mitigate the carbon footprint of the 2016 Rio Olympic Games
- Interim dividend increased by 3% to 1.85 pence

**Financial highlights**

	Six months ended 30 June 2016	Six months ended 30 June 2015	Change
	£m	£m	%
Group Revenue	27.07	26.49	2
Gross Profit	8.14	7.94	3
Operating Profit pre exceptional item	3.33	3.17	5
Operating Profit post exceptional item	3.07	3.17	(3)
Adjusted profit before tax <sup>1</sup>	3.21	3.19	1
Profit before tax pre exceptional item	3.03	3.02	0
Profit before tax	2.77	3.02	(8)
Basic eps (p)	5.18	5.50	(6)
Basic eps (p) pre exceptional item	5.78	5.50	5
Interim dividend (p)	1.85	1.80	3

<sup>1</sup> Before amortisation of acquired intangible assets and exceptional items

**Commenting on the results, Steve Good, Chairman said:**

“We enter the second half of the year with a good order book, a strong product portfolio, growth expectations in all business units and the benefits of the weaker Sterling. Whilst today we reported record revenue for the first half of the year, growth was muted by customer inventory adjustments and sales phasing. In addition, profits were broadly flat, but this was due to increased expenditure in selling, development and technical resource to support long-term growth opportunities.



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Therefore, whilst recognising the significant uncertainty resulting from the macro-economic backdrop, the Board remains confident in the prospects for the business.”

**Enquiries:**

**Zotefoams plc**

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**About Zotefoams plc**

Zotefoams plc (LSE - ZTF) is a world leader in cellular material technology. Using a unique manufacturing process with environmentally friendly nitrogen expansion, Zotefoams produces lightweight foams in Croydon, UK and Kentucky, USA for diverse markets worldwide. Zotefoams also owns and licenses patented MuCell® microcellular foam technology from a base in Massachusetts, USA to customers worldwide and sells T-FIT® advanced insulation systems.

[www.zotefoams.com](http://www.zotefoams.com)



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### **Results overview**

In the first six months of 2016 Group revenue increased by 2% to £27.07m (2015: £26.49m), delivering a record figure for the first six months aided by a weaker GBP against our main trading currencies. However, growth was impacted by customer inventory adjustments and sales phasing, primarily in our HPP Business Unit, where we see a much stronger second half developing. An efficiency improvement programme at our Croydon, UK factory has increased effective capacity and will reduce operating costs in the future, resulting in an exceptional cost of £0.3m during the period. We also increased operational expenditure to accelerate development of the Zotefoams Group, with a new venture in Oklahoma, USA and Kunshan, PRC, and a large number of new products and applications approaching commercialisation. These investments, in the short term, dampened the benefit of currency gains. Gross profit increased by 3% and profit before tax pre-exceptional item increased to £3.03m (2015: £3.02m), while adjusted profit before tax remained consistent with prior year. Basic earnings per share were 5.18p after exceptional items (2015: 5.50p). The Directors have decided to increase the interim dividend by 3% to 1.85p per share (2015: 1.80p), reflecting the Board's continued confidence in the Group's future.

### **Currency review**

As a predominantly UK-based exporter, Zotefoams has approximately 80% of sales denominated in US Dollars and Euros. With most costs incurred in Sterling, other than our main raw materials which are denominated in Euros and some staff and operational costs which are in US Dollars, movements in foreign exchange rates can have a significant impact on our results. The average Euro rate was 1.28:£1 for the first six months of 2016 (equivalent 2015 rate 1.38:£1) and the average US Dollar rate was 1.42:£1 (equivalent 2015 rate 1.53:£1). The period end closing exchange rates, and in particular the movement between the period opening and closing rates, generated a non-cash translational gain of £0.51m in the period (2015: loss of £0.44m), the benefit of which is credited against administration expenses.

### **Financial and operational review**

#### *Polyolefin Foams*

Overall sales volumes were at similar levels to 2015. We estimate underlying growth of 4% offset by a reduction in inventory held by our direct customers. UK sales volumes increased by 9% with a strong start to the year being maintained until a poor June 2016 with obvious lower confidence in the market, which continued into July 2016, but has reverted with a more robust August 2016 order book. In continental Europe, where we saw the most marked reduction in customer inventory levels, sales volumes were down by 5%, but again we believe the underlying demand was positive. In Asia, where Japan is the dominant market, sales volumes declined by almost 25%, again with some destocking exacerbating the impact of a relatively weak Japanese Yen, which has made imports more expensive for the past few years. Sales increased by 12% in North America, with the benefit of a stronger USD and added value from Zotefoams Midwest in a market where volume increased by 9%.

Group revenue from Azote® Polyolefin Foams increased by 3% to £22.79m (2015: £22.09m), although at constant currency it would have been £21.30m.

The Euro-denominated cost for one tonne of our main raw material, low density polyethylene ('LDPE'), was approximately 12% higher than in H1:2015. We also suffered from a force majeure event from our main polymer supplier for a significant period. Although this material is multi-sourced, such a supply disruption does incur meaningful additional costs, which fell wholly within the first half of this year. Overall this added approximately £0.4m to our polyolefin foams cost base in the period.

Operating profit in polyolefin foams, before exceptional items, declined by 7% to £3.81m (2015: £4.08m), mainly due to increased material costs and additional expenditure related to our investment in Kentucky, USA, which is due to begin operation in 2017, and in Oklahoma USA, which began operation in March 2016.



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*High-Performance Products ('HPP')*

HPP sales of £3.17m were slightly below the previous year (2015: £3.39m). Customer orders are, typically, strongly second-half weighted and therefore the performance in the first six months understates the underlying growth in this Business Unit. As fixed costs have been increased to support our sales opportunities, the phasing of sales also impacts our reported Business Unit profit margin disproportionately in the period, with segment operating profit pre-exceptional Item of £0.30m (2015: £0.67m).

We are very pleased with the progress of a large number of opportunities within our HPP business generally. ZOTEK® F foams, where the main market is in aviation, is the largest segment and continues to offer medium-term growth consistent with our past experience, although 2016 is likely to show more muted growth in aviation, with our customers managing inventory lower in the downstream supply chain. Markets such as composites, automotive and sports are using ZOTEK® Nylon foams in small initial quantities, which we believe could offer excellent potential in the future and we have secured the first orders for what we expect to be a significant business in our ZOTEK® PEBA foams within the sport and leisure sector.

In the period, one disappointing aspect within our HPP Business Unit has been the difficulty experienced in setting up the manufacturing site for our T-FIT® insulation products. In 2015, we announced a joint venture in China for the manufacture of this product range and expected this to be operational by October 2015. Unforeseen operational difficulties forced the joint venture company to find another factory location and re-apply for a business license in China. We now expect the business to be operational during Q3:2016. This delay has impacted management time, while the additional overhead costs, in China and in Thailand, have been underutilised. However, we remain fully committed to T-FIT® insulation with a high level of current quotes into clean-room insulation and, with very promising trials of nylon-based insulation tube for process industries and a modified PVDF foam for food and dairy, we intend to launch further products within this range which target a much larger potential market.

In addition to supporting and developing the product offering within HPP, Zotefoams' technical department continues to enhance our unique technology. Traditionally, Zotefoams has manufactured rectangular sheets of foam with extrusion of a solid sheet being the primary step. While this has many advantages, there are markets where this cuboid shape results in large material yield loss as complex shapes are cut from the foam, often needing high levels of machine time and labour input. We have recently successfully trialled the manufacture of complex 3-dimensional foam shapes, which can be manufactured using an initial step of injection moulding or 3D printing technology. This is an exciting development for some large volume applications and we are currently working to commercialise this promising new technology.

*MuCell Extrusion LLC ('MEL')*

MEL licenses microcellular foam technology and sells related machinery. Sales increased by 10% to £1.11m (2015: £1.01m) with an increase of 11 lines installed at licensees (2015: 12 lines in H1) bringing the total installed base to 99 lines, of which we estimate approximately half are currently in use by the licensee.

In the period, The Dow Chemical Company ("Dow") announced they are promoting MuCell® extrusion technology in South America to mitigate the carbon footprint of the 2016 Rio Olympic Games. As a direct result of this initiative, MuCell® extrusion technology for foamed film will be used by four major packaging companies in the region.

In addition, MEL secured its largest individual order, where we will deliver an entire extrusion line with MuCell® technology to a customer in Japan for use in consumer packaging. This order is in excess of £1m and contributed significantly to our record order intake in the period.

Enquiry levels and the installed equipment base at MEL continue to increase and during the second half of 2016 we plan to hire additional technical and engineering staff to meet the demand for customer support. Finally, the development of our technology continues to be a priority and we have



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filed additional patent applications in blow moulding, which we believe will significantly enhance our product offering almost immediately.

MEL reported an operating loss before exceptional item and amortisation costs of £0.24m (2015: loss £0.22m).

### *Distribution and Administration*

Costs of distribution and administration are either incurred directly or allocated to each business unit according to management estimates. The main elements of administrative expenses are technical development, finance and administration, and information systems as well as the cost (or benefit) of foreign exchange hedges maturing in the period and non-cash foreign exchange translation expenses. Administrative costs excluding the impact of foreign exchange hedges and translation were £3.23m (2015: £2.49m), with the main increase resulting from additional expenditure on raw materials and product development, new business start-ups, finance and systems.

### *Tax and Cash Flow*

Zotefoams' estimated effective tax rate for the period was 19% (2015: 20.5%), which is slightly below the UK corporation tax rate for the period of 20%. Cash generated from operations was £4.93m (2015: £4.99m). Capital expenditure was £8.00m, £6.22m higher than depreciation and amortisation, and primarily related to group capacity expansion via the Kentucky, USA, manufacturing facility, which, together with tax and dividend payments, increased net debt (cash less bank overdrafts and other bank borrowings) by £5.64m from £1.59m at 31 December 2015 to £7.23m.

### *Pensions*

The April 2014 triennial actuarial valuation, on a Statutory Funding Objective basis, calculated a deficit for the Pension Scheme of £2.50m. As a result of this, the Company has agreed with the Trustees to make contributions to the Scheme of £41,000 per month until April 2020 to eliminate this deficit and, in addition, pay the ongoing Scheme expenses of £14,000 per month.

Following declining bond yields and the immediate aftermath of the UK's decision to exit the European Union, the Company has obtained guidance from the actuaries as at 30 June 2016. Based on guidance received, the Company has increased the pension deficit by £2.4m to reflect current market conditions. The position will further be reviewed at year end and a full actuarial valuation is scheduled for April 2017.

### *Capital Expenditure*

Zotefoams is investing significantly to support future growth. Our largest project is extending our existing facility in Kentucky, USA. Initially we committed to installing sufficient extruders and a single high-pressure autoclave to deliver approximately 20% additional global capacity for block foams. As previously announced, we have experienced unforeseen delays in delivery of the autoclave since this initial decision was made. The Board has therefore taken a decision to invest in a second high-pressure autoclave, which will allow us the certainty of additional core capacity at relatively short notice. Overall the project is now expected to be \$30m, of which \$4.5m is an extension to existing buildings and infrastructure. The project is proceeding to previously announced timescales and is anticipated to be operational, with the first autoclave commissioned, in H1:2017. We continue to invest in our Croydon, UK facility increasing production capacity and capability, mainly in speciality extrusion, and two further low-pressure autoclaves for expansion of HPP products.

Planned capital investment in China, where our Kunshan ZOTEK King Lai joint venture is located, is not expected to be significant to the Group.

### **Employees and Talent Management**

Talent management is becoming increasingly important as Zotefoams grows and evolves. The opportunities we have, in new products, markets and geographies, require that we identify and develop the right people to define and deliver to our potential. Over the past six months we have recruited substantially to meet the needs of our business and, as at 30 June 2016, headcount was 352, with approximately 11% of employees recruited within the past 12 months.



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On behalf of the Board, we would like to thank all of our employees for their continued contribution to Zotefoams in the period.

### **Dividend**

Reflecting the Board's continued confidence in the Group's future, the Directors have increased the interim dividend by 3% to 1.85 pence per share (2015: 1.80 pence). The dividend will be paid on 13 October 2016 to shareholders on the Company's register at the close of business on 16 September 2016.

### **Principal Risks and Uncertainties**

Zotefoams' business and share price may be affected by a number of risks, not all of which are within our control. The process Zotefoams has in place for identifying, assessing and managing risks is set out in the Company statement of Principal Risks and Uncertainties on pages 22 to 25 of the 2015 Annual Report and Accounts. The specific principal risks (which could impact Zotefoams' sales, profits and reputation) and relevant mitigating factors, as currently identified by Zotefoams' risk management process, have not changed significantly since the publication of the last Annual Report and detailed explanations of these can be found in the 2015 Annual Report. Broadly, these risks include operational disruption, supply chain disruption, technological change and competitor activity, pension liabilities, foreign exchange, macro-economic factors, financing, commercial and people.

### **Current Trading and Prospects**

In our Azote® Polyolefin foams business, where customers are predominantly based in the UK and continental Europe, the softening of orders experienced in June 2016 has continued into July 2016, whereas demand for August 2016 looks strong by comparison to previous years. The recent devaluation of Sterling against both the USD and Euro is positive for the business, as approximately 80% of our revenues are denominated in these currencies, however most raw materials are bought in Euros and our US operational costs are in USD, therefore giving a partial natural hedge. The trading impact of Sterling devaluation will benefit us a little for the remainder of this year, with a more significant positive impact during 2017 when our financial hedges at higher rates have expired. We expect the costs of LDPE for the remainder of the year to be at a similar level to the first six months. In our HPP business, orders plus invoiced sales for ZOTEK® technical foams currently exceed 2015 sales. In T-Fit® insulation products, where the order book is typically shorter, we anticipate growth in the second half of the year from a strong pipeline of bids. In MEL we have a record order book by value and a significant number of quotations out to potential customers, but the number of machines currently on order is below the record levels seen at this time last year.

### **Outlook**

We enter the second half of the year with a good order book, a strong product portfolio, growth expectations in all business units and the benefits of the weaker Sterling. Whilst recognising the significant uncertainty resulting from the macro-economic backdrop, the Board remains confident in the prospects for the business.

S P Good  
Chairman  
1 August 2016

D B Stirling  
Group CEO  
1 August 2016



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## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors confirm that these condensed consolidated interim statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting' as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related-party transactions in the first six months and any material changes in the related-party transactions described in the last annual report.

The directors of Zotefoams plc are listed in the Zotefoams plc Annual Report for 31 December 2015, with the exception of the following changes in the period: Mr N G Howard retired on 31 March 2016 and Mr C G Hurst retired on 16 May 2016. A list of current directors is maintained on the Zotefoams plc website: [www.zotefoams.com](http://www.zotefoams.com)

The maintenance and integrity of the Zotefoams plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board:

S P Good  
Chairman  
1 August 2016

G C McGrath  
Finance Director  
1 August 2016



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## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

		Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
		(unaudited) £'000	(unaudited) £'000	(audited) £'000
	<b>Note</b>			
<b>Group revenue</b>	<b>6</b>	<b>27,069</b>	<b>26,489</b>	<b>53,869</b>
Cost of sales		(18,931)	(18,545)	(38,863)
<b>Gross profit</b>		<b>8,138</b>	<b>7,944</b>	<b>15,006</b>
Distribution costs		(2,089)	(1,832)	(3,886)
Administrative expenses pre- exceptional item		(2,716)	(2,939)	(4,795)
Exceptional item	<b>14</b>	(262)	-	-
Total administrative expenses		(2,978)	(2,939)	(4,795)
<b>Operating profit</b>		<b>3,071</b>	<b>3,173</b>	<b>6,325</b>
<b>Operating profit pre exceptional item</b>	<b>6</b>	<b>3,333</b>	<b>3,173</b>	<b>6,325</b>
Finance income		-	2	2
Finance costs		(288)	(153)	(306)
Share of loss from Joint Venture		(17)	(5)	(11)
<b>Profit before Income tax</b>		<b>2,766</b>	<b>3,017</b>	<b>6,010</b>
Income tax expense	<b>7</b>	(522)	(618)	(1,213)
<b>Profit for the period</b>		<b>2,244</b>	<b>2,399</b>	<b>4,797</b>
Attributable to:				
Equity holders of the Parent		2,266	2,399	4,824
Non controlling interest		(22)	-	(27)
		2,244	2,399	4,797
<b>Earnings per share:</b>				
<b>Basic (p)</b>	<b>9</b>	<b>5.18</b>	<b>5.50</b>	<b>11.10</b>
<b>Diluted (p)</b>	<b>9</b>	<b>5.11</b>	<b>5.40</b>	<b>10.90</b>

The notes below form part of these financial statements.





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### CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended 30-Jun 2016 (unaudited) £'000	Six months ended 30-Jun 2015 (unaudited) £'000	Year ended 31-Dec 2015 (audited) £'000
<b>Profit for the period</b>	<b>2,244</b>	<b>2,399</b>	<b>4,797</b>
<b>Other comprehensive income/(expense)</b>			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial (losses)/gains on defined benefit schemes	(2,534)	-	443
Tax relating to items that will not be reclassified	481	-	(84)
<b>Total items that will not be reclassified to profit or loss</b>	<b>(2,053)</b>	<b>-</b>	<b>359</b>
<i>Items that may be re-classified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedges net of recycling	(915)	604	(46)
Foreign exchange translation gains/(losses) on investment in foreign subsidiaries and joint ventures	2,171	(190)	814
Tax relating to items that may be reclassified	174	(121)	6
<b>Total items that may be classified subsequently to profit or loss</b>	<b>1,430</b>	<b>293</b>	<b>774</b>
<b>Other comprehensive (expense)/income for the period, net of tax</b>	<b>(623)</b>	<b>293</b>	<b>1,133</b>
<b>Total comprehensive income for the period</b>	<b>1,621</b>	<b>2,692</b>	<b>5,930</b>
<b>Attributable to:</b>			
Equity holders of the parent	1,643	2,692	5,952
Non-controlling interest	(22)	-	(22)
<b>Total comprehensive income for the period</b>	<b>1,621</b>	<b>2,692</b>	<b>5,930</b>

The notes below form part of these financial statements.



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## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

	30-Jun 2016 (unaudited) £'000	30-Jun 2015 (unaudited) £'000	31-Dec 2015 (audited) £'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	41,983	29,781	35,372
Intangible assets	7,219	6,791	6,868
Investments in joint venture	163	338	163
Deferred income tax assets	669	458	574
<b>Total non-current assets</b>	<b>50,034</b>	<b>37,368</b>	<b>42,977</b>
<b>Current assets</b>			
Inventories	10,898	8,487	9,862
Trade and other receivables	15,605	14,428	17,219
Derivative financial instruments	-	456	-
Cash and cash equivalents (excluding bank overdrafts)	2,578	4,020	6,148
<b>Total current assets</b>	<b>29,081</b>	<b>27,391</b>	<b>33,229</b>
<b>Total assets</b>	<b>79,115</b>	<b>64,759</b>	<b>76,206</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	(8,482)	(6,876)	(10,250)
Current income tax liabilities	(447)	(481)	(726)
Interest-bearing loans and borrowings	(1,146)	(726)	(1,102)
Derivative financial instruments	(1,110)	-	(195)
Bank overdraft	(2,900)	(313)	(879)
<b>Total current liabilities</b>	<b>(14,085)</b>	<b>(8,396)</b>	<b>(13,152)</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	(5,765)	(1,125)	(5,758)
Deferred income tax liabilities	(499)	(857)	(938)
Retirement benefit obligations	(7,621)	(5,912)	(5,238)
<b>Total non-current liabilities</b>	<b>(13,885)</b>	<b>(7,894)</b>	<b>(11,934)</b>
<b>Total liabilities</b>	<b>(27,970)</b>	<b>(16,290)</b>	<b>(25,086)</b>
<b>Total net assets</b>	<b>51,145</b>	<b>48,469</b>	<b>51,120</b>
<b>Equity</b>			
Issued share capital	2,221	2,191	2,221
Own shares held	(31)	(9)	(38)
Share premium	24,340	24,340	24,340
Capital redemption reserve	15	15	15
Translation reserve	3,807	637	1,636
Non-controlling interest	116	-	138
Hedging reserve	(936)	334	(195)
Retained earnings	21,613	20,961	23,003
<b>Total equity attributable to the equity holders of the Parent</b>	<b>51,145</b>	<b>48,469</b>	<b>51,120</b>

The notes below form part of these financial statements.



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### CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Six months ended 30-Jun 2016 (unaudited) £'000	Six months ended 30-Jun 2015 (unaudited) £'000	Year ended 31-Dec 2015 (audited) £'000
<b>Cash flows from operating activities:</b>			
Profit for the period	2,244	2,399	4,797
Adjustments for:			
Depreciation, amortisation and impairment	1,780	1,733	3,476
Finance income	-	(2)	(2)
Finance costs	288	153	306
Loss from joint venture	17	5	11
Equity-settled share-based payments	75	136	223
Taxation	521	618	1,213
<b>Cashflow from operating activities before changes in working capital and provisions</b>	<b>4,925</b>	<b>5,042</b>	<b>10,024</b>
Decrease/(increase) in trade and other receivables	2,175	(1,045)	(3,546)
(Increase)/decrease in inventories	(801)	765	(471)
(Decrease)/increase in trade and other payables	(1,039)	560	3,065
Employee benefit contributions	(330)	(330)	(660)
<b>Cash generated from operations</b>	<b>4,930</b>	<b>4,992</b>	<b>8,412</b>
Interest paid	(109)	(45)	(97)
Tax paid	(715)	(365)	(782)
<b>Net cash from operating activities</b>	<b>4,106</b>	<b>4,582</b>	<b>7,533</b>
Interest received	-	2	2
Investment in joint ventures	-	(169)	-
Acquisition of intangible assets	(69)	(300)	(422)
Acquisition of property, plant and equipment	(7,934)	(2,898)	(8,683)
<b>Net cash used in investing activities</b>	<b>(8,003)</b>	<b>(3,365)</b>	<b>(9,103)</b>
Issue of share capital to employees	30	10	126
Repurchase of own shares	-	(4)	(127)
Repayment of borrowings	(457)	(383)	(741)
Proceeds from borrowings	-	-	5,356
Investment in subsidiary by non-controlling interest	-	-	160
Dividends paid	(1,664)	(1,615)	(2,400)
<b>Net cash (used)/generated in financing activities</b>	<b>(2,091)</b>	<b>(1,992)</b>	<b>2,374</b>
Net (decrease)/increase in cash and cash equivalents	(5,988)	(775)	804
<b>Cash and cash equivalents at 1 January</b>	<b>5,269</b>	<b>4,628</b>	<b>4,628</b>
Effect of exchange rate fluctuations on cash held	397	(146)	(163)
<b>Cash and cash equivalents at the end of period</b>	<b>(322)</b>	<b>3,707</b>	<b>5,269</b>

Cash and cash equivalents comprise cash at bank, short-term highly liquid investments with a maturity date of less than three months and bank overdrafts.

The notes below form part of these financial statements.



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## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Share capital	Own shares held	Share premium	Capital redemption reserve	Translation reserve	Hedging reserve	Non-controlling interest	Retained earnings	Total equity
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2016	2,221	(38)	24,340	15	1,636	(195)	138	23,003	51,120
Foreign exchange translation profit on investment in foreign subsidiaries and joint ventures	-	-	-	-	2,171	-	-	-	2,171
Effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	(915)	-	-	(915)
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	174	-	-	174
Actuarial losses on defined benefit scheme	-	-	-	-	-	-	-	(2,534)	(2,534)
Tax relating to actuarial losses on defined benefit scheme	-	-	-	-	-	-	-	481	481
Profit for the period	-	-	-	-	-	-	(22)	2,266	2,244
<b>Total comprehensive income/(loss) for the period</b>	-	-	-	-	2,171	(741)	(22)	213	1,621
<b>Transactions with owners of the Parent</b>									
Shares issued to employees	-	7	-	-	-	-	-	23	30
Equity-settled share-based payment transactions net of tax	-	-	-	-	-	-	-	38	38
Dividends paid	-	-	-	-	-	-	-	(1,664)	(1,664)
<b>Total transactions with owners of the Parent</b>	-	7	-	-	-	-	-	(1,603)	(1,596)
<b>Balance at 30 June 2016 (unaudited)</b>	<b>2,221</b>	<b>(31)</b>	<b>24,340</b>	<b>15</b>	<b>3,807</b>	<b>(936)</b>	<b>116</b>	<b>21,613</b>	<b>51,145</b>

During the six months period ended 30 June 2016, 82,239 shares vested and were issued from the Zotefoams Employee Benefit Trust ('EBT') following the exercise of these options.

The notes below form part of these financial statements.



# ZOTEFOAMS

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Share capital	Own shares held	Share premium	Capital redemption reserve	Translation reserve	Hedging reserve	Retained earnings	Total equity
	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 1 January 2015	2,191	(17)	24,340	15	827	(149)	20,027	47,234
Foreign exchange translation loss on investment in foreign subsidiaries and joint ventures	-	-	-	-	(190)	-	-	(190)
Effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	604	-	604
Tax relating to effective portion of changes in fair value of cash flow hedges net of recycling	-	-	-	-	-	(121)	-	(121)
Profit for the period	-	-	-	-	-	-	2,399	2,399
<b>Total comprehensive (loss)/income for the period</b>	-	-	-	-	(190)	483	2,399	2,692
<b>Transactions with owners of the Parent</b>								
Shares issued to employees	-	10	-	-	-	-	-	10
Shares acquired	-	(2)	-	-	-	-	(2)	(4)
Equity-settled share-based payment transactions net of tax	-	-	-	-	-	-	152	152
Dividends paid	-	-	-	-	-	-	(1,615)	(1,615)
<b>Total transactions with owners of the Parent</b>	-	8	-	-	-	-	(1,465)	(1,457)
<b>Balance at 30 June 2015 (unaudited)</b>	<b>2,191</b>	<b>(9)</b>	<b>24,340</b>	<b>15</b>	<b>637</b>	<b>334</b>	<b>20,961</b>	<b>48,469</b>

The notes below form part of these financial statements.



**ZOTEFOAMS**

**NOTES TO THE INTERIM FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016**

**1. GENERAL INFORMATION**

The Company is a public limited liability company incorporated and domiciled in the UK. The address of the registered office is 675 Mitcham Road, Croydon, CR9 3AL. The Group is principally engaged in manufacturing and selling cellular materials and, through MuCell Extrusion LLC ('MEL'), licensing microcellular foam technology and supplying related equipment. The Group has manufacturing sites in the UK and the USA and sells into worldwide markets. The Company is listed on the London Stock Exchange and is registered in England and Wales with Company Number 2714645.

**2. BASIS OF PREPARATION**

This condensed set of consolidated interim financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the condensed set of consolidated interim financial statements has been prepared applying the accounting policies and presentation that were applied in the preparation of the Group's published consolidated financial statements for the year ended 31 December 2015. Those consolidated financial statements were prepared in accordance with IFRSs as adopted by the EU.

This condensed set of consolidated interim financial statements has been reviewed, but not audited, and was approved for issue on 1 August 2016. This condensed set of consolidated interim financial statements does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31 December 2015 were approved by the Board of Directors on 14 March 2016 and delivered to the Registrar of Companies. The independent audit on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under Section 498 of the Companies Act 2006.

*Pension*

Pension obligations have increased by £2.4m in the period to £7.62m, from £5.24m at December 2015. This is due to yields decreasing following the referendum result, announcing that the UK would leave the European Union. The discount factor used to calculate the future pension obligations has therefore decreased, resulting in a larger net present value of the pension deficit at 30 June 2016. The income statement charge is based on the set of assumptions laid out in the consolidated financial statements for the year ended 31 December 2015.

*Forward-looking statements*

Certain statements in this condensed set of consolidated interim financial statements are forward-looking. Although the Group believes that the expectations reflected in these forward-looking statements are reasonable, we can give no assurance that these expectations will prove to be correct. Because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by these forward-looking statements.

We undertake no obligation to update any forward-looking statements whether as a result of new information, future events or otherwise.

*Going concern*

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. The Group therefore continues to adopt the going concern basis of accounting in preparing its condensed consolidated interim financial statements.



**ZOTEFOAMS**

### **3. ACCOUNTING POLICIES**

The accounting policies adopted are consistent with those of the Group's published consolidated financial statements for the year ended 31 December 2015, as described in those consolidated financial statements with the exception of tax which is accrued based on an estimated tax rate that would be applicable to estimated annual earnings.

#### *Exceptional items*

Exceptional items are items which due to their size, incidence and non-recurring nature have been classified separately in order to draw them to the attention of the reader of the financial statements and, in management's judgement, to show more accurately the underlying profits of the Group. Such items are included within the consolidated interim income statement caption to which they relate, and are separately disclosed either in the notes to the consolidated interim financial statements or on the face of the consolidated interim income statement.

### **4. CYCLICAL NATURE OF BUSINESS**

Recently, the seasonality of Zotefoams' business has been largely eliminated, with most variability derived from order timing from HPP and MEL, and customer inventory management according to their specific business needs. There remains an underlying cyclical nature of our markets, over the longer macroeconomic business cycle, as Zotefoams sells into a wide variety of business segments, many of which are themselves cyclical.

### **5. ESTIMATES**

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgements about carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 31 December 2015.



**ZOTEFOAMS**

## 6. SEGMENT REPORTING

The Group manufactures and sells high-performance foams and licenses related technology for specialist markets worldwide. Zotefoams' activities are categorised as follows:

- Polyolefins: these foams are made from olefinic homopolymer and copolymer resin. The most common resin used is low density polyethylene ('LDPE').
- High-Performance Products (HPP): these foams exhibit high-performance on certain key properties, such as improved chemical, flammability or temperature performance, due to the resins on which they are based. Turnover in the segment is currently derived mainly from our ZOTEK® F foams and T-FIT® insulation, both made from PVDF fluoropolymer. Other commercially launched products are foams made from polyamide (nylon) and polyether block amide ('PEBA').
- MEL: licenses microcellular foam technology and sells related machinery.

Due to our unique manufacturing technology Zotefoams can produce polyolefin foams with superior performance to other manufacturers. Our strategy is to use the capabilities of our technology to produce foams from other materials in addition to polyolefins. There were no significant transactions within the period between reportable segments.

Six months ended 30 June 2016 (unaudited)	Polyolefins £'000	HPP £'000	MEL £'000	Consolidated £'000
Group revenue	22,789	3,174	1,106	27,069
Segment profit/(loss) before amortisation	3,832	300	(241)	3,891
Amortisation of acquired intangible assets	(24)	-	(162)	(186)
Segment profit/(loss)	3,808	300	(403)	3,705
Foreign exchange gains	-	-	-	510
Unallocated central costs	-	-	-	(882)
Operating profit pre exceptional item				3,333

Six months ended 30 June 2015 (unaudited)	Polyolefins £'000	HPP £'000	MEL £'000	Consolidated £'000
Group revenue	22,087	3,394	1,008	26,489
Segment profit/(loss) before amortisation	4,102	670	(221)	4,551
Amortisation of acquired intangible assets	(24)	-	(153)	(177)
Segment profit/(loss)	4,078	670	(374)	4,374
Foreign exchange losses	-	-	-	(444)
Unallocated central costs	-	-	-	(757)
Operating profit pre exceptional item				3,173





## ZOTEFOAMS

### 7. INCOME TAX EXPENSE

	Six months ended 30 June 2016 £'000	Six months ended 30 June 2015 £'000
Current tax:		
UK corporation tax	433	454
Foreign tax	3	7
	436	461
Deferred tax	86	157
	522	618

The Group's consolidated effective tax rate for the six months ended 30 June 2016 was 19% (2015: 20.5%).

Tax is accrued based on an estimated tax rate applicable to estimated annual earnings.

### 8. DIVIDENDS

	Six months ended 30 June 2016 £'000	Six months ended 30 June 2015 £'000
Final dividend for the year ended 31 December 2015 of 3.80p (2014: 3.70p) per share	1,664	1,615

The final dividend for the year ended 31 December 2015 was paid on 25 May 2016. The interim dividend of 1.85p (2015: 1.80p) per share, amounting to £0.8m (2015: £0.79m) has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year to 31 December 2016.



## ZOTEFOAMS

### 9. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30-Jun 2016 £'000	Six months ended 30-Jun 2015 £'000
<hr/>		
Earnings		
Earnings for the purpose of basic earnings per share pre-exceptional items being net profit attributable to equity holders of the parent pre-exceptional items	2,528	2,399
Earnings for the purposes of diluted earnings per share pre-exceptional items	2,528	2,399
Earnings for the purpose of basic earnings per share being net profit attributable to equity holders of the parent	2,266	2,399
Earnings for the purposes of diluted earnings per share	2,266	2,399
<hr/>		
Number of shares	Number	Number
<hr/>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	43,715,063	43,549,103
Effect of dilutive potential ordinary shares:		
Share options and Long-Term Incentive Plans	603,994	598,840
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Weighted average number of ordinary shares for the purposes of diluted earnings per share	44,319,057	44,147,943
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### 10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks including credit risk, interest rate risk, liquidity risk and foreign currency risk.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; they should be read in conjunction with the Group's annual financial statements as at 31 December 2015. There have been no changes in any risk management policies since the year end.

#### *Fair value estimation*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).



# ZOTEFOAMS

The following table presents the Group's financial instruments that are measured at fair value at 30 June 2016.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Forward exchange contracts	-	-	-	-
<b>Total assets</b>	-	-	-	-
<b>Liabilities</b>				
Forward exchange contracts	-	(1,110)	-	(1,110)
<b>Total liabilities</b>	-	(1,110)	-	(1,110)

The following table presents the Group's financial instruments that are measured at fair value at 30 June 2015.

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Assets</b>				
Forward exchange contracts	-	456	-	456
<b>Total assets</b>	-	456	-	456
<b>Liabilities</b>				
Forward exchange contracts	-	-	-	-
<b>Total liabilities</b>	-	-	-	-

The forward exchange contracts have been fair valued using forward exchange rates that are quoted in an active market.

### *Group's valuation process*

The Group's finance department performs the valuation of forward exchange contracts required for financial reporting purposes. This is reported to the Audit Committee.

The results of the valuation processes are included in the Group's monthly reporting to the directors which include all members of the Audit Committee.

### *Fair value of financial assets and liabilities measured at amortised cost*

The fair value of borrowings is as follows:

	30 June 2016 £'000	30 June 2015 £'000
Current	1,146	726
Non-current	5,765	1,125
<b>Total</b>	<b>6,911</b>	<b>1,851</b>



**ZOTEFOAMS**

The fair value of the following financial assets and liabilities approximate to their carrying amount:

- Trade and other receivables
- Other current financial assets
- Cash and cash equivalents
- Trade and other payables
- Other current liabilities

#### **11. RELATED PARTY TRANSACTIONS**

There were no material related party transactions requiring disclosure for the periods ended 30 June 2016 and 30 June 2015.

#### **12. BORROWINGS**

On 1 March 2016 the Group and Company reduced its overdraft facility from £4.9m to £2.0m and took out a 4 year multi-currency revolving credit facility ('RCF') for £8m secured on the property and book debts of the Company. This facility has financial covenants on net debt/EBITDA and EBIT/gross financing costs ratios. The group also took out an \$8m mortgage in the prior year, which is being repaid over 10 years.

#### **13. CAPITAL COMMITMENTS**

Capital expenditure commitment of £9.5m has been contracted for at the end of the reporting period but not yet incurred, and is in respect of Property, Plant and Equipment.

#### **14. EXCEPTIONAL ITEMS**

Items that are material either because of their size or their nature, or that are non-recurring are considered as exceptional items and are presented within the line items to which they best relate. During the period, the exceptional item related to redundancy costs totalling £262k, as a result of the efficiency improvement programme, which have been included in the income statement as an operating exceptional cost.

#### **15. EVENTS OCCURRING AFTER THE REPORTING PERIOD**

An interim dividend of 1.85p per share (2015: 1.80p per share) was proposed by the board of directors on 1 August 2016. It is payable on 13 October 2016 to shareholders who are on the register at 16 September 2016. This interim dividend has not been recognised as a liability in this interim financial information. It will be recognised in shareholders' equity in the year to 31 December 2016.



**ZOTEFOAMS**

# ***Independent review report to Zotefoams plc***

## **Report on the Interim Results**

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### **Our conclusion**

We have reviewed Zotefoams plc's Interim Results (the "interim financial statements") in the Interim Report for the 6 month period ended 30 June 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

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### **What we have reviewed**

The interim financial statements comprise:

- the condensed consolidated statement of financial position as at 30 June 2016;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated statement of cash flows for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the Interim Report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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## **Responsibilities for the interim financial statements and the review**

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### **Our responsibilities and those of the directors**

The Interim Report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the Interim Report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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### **What a review of interim financial statements involves**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



**ZOTEFOAMS**

We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Gatwick  
1 August 2016